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Public service pension age – the Labour Government's reforms

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Summary

Reforms introduced by the Labour Government increased the normal pension age for new entrants to most public schemes, although not for existing members. In the schemes for the NHS, teachers' and civil servants, for example, the normal pension age was set at 65 for new entrants compared to 60 for existing members. In addition, "cap and share" arrangements were introduced, with the aim of ensuring that increases in the cost of pension benefits (due to, for example, rising longevity) that were identified at scheme valuations would in future be shared between employers and employees, up to an agreed cap on employer contributions.

This note looks at reforms introduced by the Labour Government to increase the age at which public service pensions can be drawn. A separate note - SN 6581 Public service pension age – the 2015 reforms – looks at reforms introduced by the Coalition Government.

1. Background

Pension tax legislation prescribes a minimum age at which a pension can be drawn. This increased to 55 in April 2010.

In addition, occupational pension scheme rules generally include a "normal pension age." This is the earliest age at which a scheme member can generally draw an unreduced pension. If drawn earlier than this the pension will generally be "actuarially reduced" to reflect the fact that it is likely to be in payment for longer (although earlier payment of an unreduced pension is often allowed on ill-health grounds).

If a person has left their job before becoming entitled to their pension, they can claim it from the "deferred pension age", under scheme rules.

Awareness of rising longevity led the Labour Government to increase the minimum age at which an occupational or personal pension can be drawn. It also negotiated an increase in the normal pension age for new entrants to public service pension schemes.

2. Minimum pension age

The earliest age at which pension benefits can generally be drawn (other than on ill-health grounds) is 55.[1] This rule was introduced as part of the pension tax simplification legislation introduced from April 2006 under the *Finance Act 2004.*

The Labour Government of the time explained that it was increasing it from 50 to recognise the considerable improvements in life expectancy:

> 1.11. As part of the introduction of flexible retirement, the Government intends to raise the minimum benefit age from 50 to 55 years of age by 2010.This change recognises the considerable improvements in life expectancy which have taken place over the last century.[2]

The intention was to encourage people to work and to save for their retirement for longer:

> 5.15 So, as part of the reform of tax rules for pensions, the Government intends to set the minimum age at which tax privileged pension benefits can be drawn – the minimum benefit age – at 55 in 2010. This measure is intended to encourage people to work and to save for their retirement for longer. By giving people notice of the change, younger working people will have time to rearrange their plans if they need to do so.[3]

It was considering how the increase should be phased-in:

> 5.16 There is a good case for leaving it up to each pension scheme to make its own choices about how any necessary adjustments to its rules are made. For example, occupational pension schemes may prefer to overhaul their rules to comply with equal treatment requirements at the same time as adjusting the scheme's minimum benefit age, if they need to do so. Or they might want to take advantage of the opportunity to redesign the pension scheme opened up by the new rules for taxation of pensions. For example, they might consider moving to an average salary scheme, or even something more innovative.
>
> 5.17 Alternatively, the tax rules could prescribe a phased rise in the minimum benefit age from implementation to 2010. This could allow pension scheme rules to follow a specific pattern in adjusting minimum benefit age upwards. It would be helpful to have feedback on which approach would make operational sense for those running pension schemes.[4]

It was considering how to protect the accrued rights of those in the uniformed services, who had traditionally had a relatively low pension age, reflecting the demands of the job

> 5.18 In the new tax rules, the minimum benefit age will apply to all pension schemes which qualify for tax relief, including those special schemes for particular trades where people may retire at a relatively young age – for example some professional sports people. From 2010, people in these schemes will not be able to draw benefits until age 55, whether or not this is the point at

1 Finance Act 2004, s165 and s279
2 HM Treasury, Simplifying the taxation of pensions, December 2002, para 1.11
3 Ibid
4 Ibid

> which they stop work in that line of business. This approach will fit what many people in these sorts of employment choose to do: often they embark on a second career after stopping working at the first kind of employment, and only retire altogether appreciably later.
>
> 5.19 The Government is considering the position of members of the pension schemes for the armed forces, police and fire services. It is essential that the entitlements to draw pension benefits before age 55 that people have already built up in these schemes are fully protected. It would be helpful if feedback could discuss whether there is a case for any special transitional rules for any other group of people whose normal retirement age is below 50 under the current rules.
>
> 5.20 Moving the minimum benefit age to 55 will not of course prevent pension schemes offering retirement at earlier ages to people who have severe health problems. That will still be permitted, as now.
>
> 5.21 Nor will this change prevent people stopping work younger than 55 if they can afford to do so using resources other than pensions. Many people already save for their retirement using other savings vehicles, for example Individual Savings Accounts (ISAs). Raising the minimum age for taking benefits from tax privileged schemes is, however, an important signal. It conveys that people cannot expect other taxpayers to help support them through pensions built up with tax relief until age 55. If they choose to stop work at a younger age, they must rely on other sources of funding until age 55.[5]

In December 2003, it said it would go ahead with the proposal to increase the minimum pension age to 55 in 2010. Individual schemes would be free to decide "how and when to move to a minimum pension age of 55 by 2010."[6] Like other pension schemes, the schemes for new entrants to the uniformed services would not allow benefits to be paid before age 55 (other than on ill-health grounds):

> **Public services**
>
> 2.15 The consultation document also referred to further work being done on the position of members of the pension schemes for the armed forces, police and fire services. The Government announced proposals for the new armed forces pension scheme in September 2003 and work is in progress on new arrangements for the police and fire services. New schemes for all three groups are expected to be in place well before 2010. To be tax compliant, the new schemes will not allow benefits to be paid before age 55. From A-Day, any new entrants to the old schemes for these and other public services will not have an entitlement to pension benefits before age 55 except on grounds of ill health.
>
> **Incapacity early retirement**
>
> 2.16 Incapacity early retirement is a long-standing feature of the current pensions system. People can take benefits at an early age on account of a medical condition such that the sufferer is incapable of returning to his or her occupation. The Government

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5 Ibid

6 HM Treasury, Simplifying the taxation of pensions: the Government's proposals, December 2003, para 2.7

> proposes that incapacity early retirement should continue to feature in the simplified regime.[7]

The minimum pension age was increased from 50 to 55 with effect from April 2010 in the *Finance Act 2004.*[8]

Protection for uniformed services

Protection arrangements for members of the uniformed services to draw pension benefits before age 55 were legislated for in the *Finance Act 2006.*[9]

Protection is lost if after taking benefits the individual is employed by certain employers, and does not meet one of four re-employment conditions. HMRC's Pension Tax Manual explains:

> **Loss of protection due to employment after taking benefits**
>
> Paragraph 22(7)(b) Schedule 36 *Finance Act 2004*
>
> Where the entitlement to a protected pension age arises from membership of a retirement benefits scheme or deferred annuity contract (for example a section 32 policy) before 6 April 2006, the protected pension age will be lost if the individual is employed by certain persons. This condition also covers the situation where those rights have subsequently been transferred as part of a block transfer to a personal pension scheme.
>
> The employment restriction applies where benefits are taken after 5 April 2006. It does not apply where benefits were taken before that date.
>
> The type of restriction depends on whether the individual's protected pension age on 5 April 2006 is to an age:
>
> - below 50, or
> - from age 50 to age 54.
>
> Whichever age group the protected pension age falls in, protection is lost where the main purpose (or one of the main purposes) for early entitlement to benefits using a protected pension age is to avoid paying tax or national insurance contributions. A pension will be unauthorised until reaching normal minimum pension age.[10]

The manual goes on to discuss the different protection arrangements for people drawing their pension under age 50 and between age 50 and 54.

These new rules were notified to police authorities in Home Office circular 07/2006[11] and to fire and rescue authorities in Firefighters' Pension Scheme guidance note 01/2010.[12] However, complaints were later made to the Pensions Ombudsman from scheme members who

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[7] HM Treasury, Simplifying the taxation of pensions: the Government's proposals, December 2003

[8] Section 279

[9] *Finance Act 2004* - Schedule 36, para 22 (7) (b) and (7B) - (7J) (), as amended by the *Finance Act 2006* (section 161, Schedule 23, para 43).

[10] HMRC, Pension tax manual

[11] See P0 7096, December 2015, para 5; They were also referred to in Home office circular 002/2010

[12] See South Yorkshire Fire and Rescue - FOIA 675

had incurred a tax liability, not having been informed of the tax implications of re-employment on their retirement benefits.[13]

The Police Federation suggests that individuals considering re-employment post retirement should seek assurances from their employer, HMRC or take independent tax advice:

> Any retiring member who is considering taking up employment as a member of police staff or being re-engaged as a police officer must satisfy him or herself that the implications of doing so are not so adverse as to amount to a deterrent. That may involve seeking assurances from the Force, Police Authority, HMRC or taking independent tax advice.[14]

13 See P0 7096, December 2015

14 Thames valley police federation – protected pension age – retirement and re-employment

3. The normal pension age

Defined benefit pension schemes typically have a normal pension age, which is the earliest age at which an individual can generally draw an unreduced pension. If drawn earlier (other than on ill-health grounds) it will usually be "actuarially reduced" to reflect the fact it will be in payment for longer.

The last Labour Government increased the normal pension age in public service pension schemes (other than for the uniformed services) to 65. Initially, it proposed applying this to all scheme members, with protection for accrued rights, but in the increases were applied to new entrants only.

3.1 Consultation

Pensions Green Paper – December 2002

In its Green Paper published in December 2002, the Labour Government said it intended to increase the normal pension age from 60 to 65. For existing members, rights build up before the change would be fully protected. For the uniformed services, the need for a recognised physical capacity to do the job, would continue to justify a lower normal pension age:

> **Public service pension schemes**
>
> 65. The Government has already begun to address the social and economic consequences of demographic change in its role as employer. One of the recommendations of Winning the Generation Game was that public-sector employers should review their retirement ages and examine the case for allowing those who want to work on to age 65 to do so. Already 75 per cent of civil servants now have the option to retire at age 65 and the numbers able to serve beyond age 60 are expected to increase. But most public-service pension schemes still allow a normal pension to be taken at age 60 or under, or allow an earlier pension for those with longer service.
>
> 66. We would welcome views on the proposal that the rules of public-service pension schemes should be changed and applied to all new members during the next few years to make an unreduced pension payable from age 65 rather than 60. Such a change would reflect improved longevity, modern working patterns and the practice in the majority of private sector pension schemes. This age would apply regardless of an employee's length of service. There will continue to be some occupations such as the armed forces, fire service and police where the need for a recognised physical capacity justifies the award of normal pension at a lower age, but for individuals who leave before they reach such an age their pension would also be deferred to age 65.
>
> 67. The Government envisages that the higher pension age might be introduced in most schemes as part of a package of changes to pension arrangements, including some features which proposals elsewhere in this Green Paper will make possible for the first time. A change of pension age would help to offset the cost of increased longevity. The reviews of the public-service schemes will be the subject of consultation and are likely to take a few years to

complete, but once introduced the higher pension ages would apply to all new entrants.

68. These reviews would aim to identify scope for redirecting resources to finance greater flexibility – particularly in the transition from work to retirement – and to offer improvements to benefits which employers and staff value and will have positive impact on staff recruitment and retention. Diverse and flexible employment practices will have a key part to play. An increase in the age from which pensions are payable will also help the financial sustainability of public service pension schemes. Early retirement options would continue to be available but as a departure from a normal pension age of 65 rather than 60.

69. For existing members, accrued pension rights from service before the change would be fully protected enabling them to receive a pension from the age they currently expect. However, while it is envisaged that the new arrangements would be introduced for all new employees, the Government will also consult on how and to what timescale the higher pension age and any associated enhancement to benefits could be extended to existing employees, while protecting rights already accrued. In many areas there is a demand from employees to work for longer and it is appropriate to encourage and reward that accordingly.[15]

White paper

In a June 2003 White Paper, the Government confirmed its intention to go ahead with this proposal. It was envisaged that by the end of 2006, all new staff would join on the new conditions. A key task for individual scheme reviews would be to decide how the higher pension age would apply to the future service of existing staff:

Public service pensions

32. The Government has a responsibility, in its role as a large employer, to lead the way in addressing the social and economic consequences of demographic change. Most public servants now have the option to work to age 65. In the Green Paper, we asked for views on the proposal to take this further by making the normal pension age in public service schemes 65 rather than 60.

33. Many responses welcome this change, for example the Institute of Directors strongly endorse this proposal saying: "It would be difficult for the Government to credibly urge business to encourage working beyond 60 if the public sector was unwilling to undergo similar changes." The local authority employers' pension committee also supports the proposal to raise the pension age to 65 both for new entrants and the future service of existing staff. The TUC and several individual trade unions oppose the change. In addition, over 100 individuals have written expressing concern about the impact on them. These are mainly public servants within their last decade before retirement who are unlikely to be affected given the timescale for the reviews and the need for transitional arrangements.

34. The Government intends to proceed with this proposal through reviews of public service pension schemes and in consultation with employers and employer representatives. Precise timing and details of the reform package will depend on the particular scheme but it is envisaged that by the end of 2006 all

15 DWP, HM Treasury, Inland Revenue, Simplicity, security and choice: working and saving for retirement, December 2002, Cm 5677, p106

> new staff will join on the new conditions. The Government has already made it clear that pension rights already accrued from past service would be fully protected. A key task for the scheme reviews will be to decide how the higher pension age will apply to the future service of existing staff and how to ensure that transitional arrangements are fair and balanced.[16]

Several schemes issued advice explaining that the change would only apply to benefits accrued from the date of change.[17]

Negotiations with the trade unions

The proposed increase in the normal pension age was strongly opposed by public service unions, a number of which balloted their members on strike action in the early part of the year and widespread industrial action was scheduled for 23 March 2005.[18] One of the unions' main objections was that the Government was imposing the higher age by "diktat". On 18 March 2005, Alan Johnson, the then Secretary of State for Work and Pensions, wrote to Brendan Barber, General Secretary of the TUC, proposing a "fresh start on discussions with Trade Unions":

> 1. I know that at the recent meeting of the Public Services Forum you and other Trade Union colleagues pressed very strongly the concerns of public service workers and their unions about possible changes to public sector pensions. In particular I know that concerns were expressed about the Government appearing to proceed by diktat on some issues.
>
> 2. The challenge we need to face together is to reform public sector pensions so that they are both fair to pensioners and workers as well as being sustainable for the long term.
>
> 3. Schemes, of course, differ in their characteristics and detailed consultations need to be conducted on a scheme-specific basis. This process is already well underway between the Deputy Prime Minister and unions representing Local Government workers. But I recognize that there are concerns about whether, in every other case, a genuine dialogue has been able to take place.
>
> 4. I think we need to take the time to get this right. The Prime Minister agrees and has tasked me with making a fresh start on discussions with Trade Unions. I am very clear that in those talks all aspects of the Government's proposals will be open to discussion and negotiation.
>
> 5. I would welcome an urgent meeting to discuss how best we can establish the most appropriate high level procedures involving relevant Ministers from across Government. Such a meeting would ensure that all negotiations are carried out in an effective way, so that together we can get the process working properly as soon as possible.
>
> 6. I hope that these assurances that genuine negotiations can take place on all aspects of possible change and that the proposed high level discussions will facilitate a meaningful dialogue on the Government strategy right across the public

[16] DWP, Simplicity, security and choice: working and saving for retirement: action on occupational pensions, June 2003, Cm 5835, p36

[17] http://tinyurl.com/3xlych; See, also a model office notice issued after publication of the White Paper, http://tinyurl.com/3dp544; See also, Q and A on Teachers' Pension Scheme website at http://tinyurl.com/2uk6hb

[18] "Public sector workers vote for strike in pension row", *Independent*, 12 March 2005

> services on this issue will enable the unions concerned to call off any planned industrial action.

The strikes were called off and a "pensions summit" held on 31 March 2005. Following this summit, Alan Johnson and Brendan Barber issued a joint statement:

> Today's meeting was productive. Both sides recognise the effects that demographic changes are having upon the sustainability of pension schemes, and today's meeting marks the first step towards an agreed long term solution that is both fair and sustainable.
>
> Unions expressed very strongly the depth of their concerns on the way the process had operated in some parts of the public sector and welcomed the Government's reaffirmation that all aspects of the Government's proposals are open to negotiation.
>
> Everyone wanted to ensure that a proper process of discussion and negotiation now occurs on the Government's proposals through the continuation of "scheme specific" negotiations overseen by special sessions of the Public Services Forum, with both sides committed to finding negotiated solutions.[19]

Negotiations resumed after the 2005 General Election. Press reports suggested that the Government intended to press ahead with its proposed reforms.[20] In his speech to the TUC Conference in September, the then Trade and Industry Secretary, Alan Johnson said:

> Whilst we do want to change the retirement at 60 ethos, this is in the context of preserving high-quality, defined-benefit, index-linked pension schemes, making improvements to other elements of the schemes, preserving current arrangements for existing staff for almost a decade and introducing arrangements which give individuals a choice about when they retire - be it aged 60 or 65, or later. But we can only deliver this within a scheme that is capable of withstanding the demographic changes that are bound to have a radical effect on pension provision.[21]

On 18 October, the Government announced that an agreement had been reached covering the schemes for civil servants, teachers and the NHS.[22] Existing employees would retain a normal pension age of 60. For new entrants, it would rise to 65. Individual scheme negotiations would agree how the reform would apply to existing employees and what other changes would be made:

> The Government and public sector unions have today agreed a set of framework principles that will be applied to the reform of public sector pension schemes in health, education and the civil service.

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[19] TUC press release, 'Statement from Alan Johnson and Brendan Barber' 31 March 2005

[20] "Blair risks strikes on pension reforms", *Financial Times*, 12 September 2005

[21] Alan Johnson MP, Speech to Congress, 14 September 2005 http://tinyurl.com/325lcb . The 2005 TUC Congress passed a motion (Composite 8) welcoming the negotiations and opposing an increase in the pension age.

[22] DTI press notice, "Agreement reached on public sector pensions", 18 October 2005; The Local Government Pension Scheme (which already has a normal pension age of 65) was being discussed separately with the Office of the Deputy Prime Minister

> Speaking following the Public Services Forum meeting that agreed the principles, Alan Johnson, Secretary of state for Trade and Industry, said:
>
> "The good news that we are living longer means pensions have to adapt. It's been happening in the private sector and today's agreement means it will happen in the public sector as well.
>
> "We should give people flexibility about when they choose to retire, but it's vital that we retain the experience and expertise that older workers have to offer and don't force them into premature retirement at 60.
>
> "Today's deal means that public sector workers will continue to get good quality pensions which are defined benefit, but like the state pension and pensions in the private sector, the normal pension age for new entrants will now be 65.
>
> "Just like most private sector pension reforms, the pension provision of existing scheme members will be protected. Individual scheme negotiations will now agree how this reform will apply to existing employees and what other changes are made.
>
> "All sides have worked hard to reach an agreement. A transparent exchange of information has allowed a shared understanding of the challenge and enabled progress to be made. This is a sensible step forward, achieved through proper negotiations, which puts public sector pensions on a sound financial footing."[23]

An agreed set of framework principles would provide a common means of moving forward with the individual scheme reviews. A principle underlying the agreement was that:

> [...] existing scheme members will have the right to suffer no detriment in terms of their normal pension age and will retain their existing pension provision unless individual or collective agreements within sector specific negotiations are reached which allow changes to those provisions or transition to new schemes. The accrued pensions rights of the existing workforce will be fully protected in the event of transition. New entrants from the date of implementation will only be offered pensions in the new schemes negotiated through the sector specific discussions.[24]

Measures to improve the opportunities for flexible retirement would also be encouraged:

> As people live longer, healthier lives, it is likely more will choose to continue working for longer. This makes it crucial that schemes give greater flexibility than in the past to those who wish to use part-time work as a stepping stone to retirement, and also greater recognition to service by those who chose to work beyond typical retirement ages.
>
> For the purposes of calculating accrual of pensions, 65 will be the reference age (the "NPA") for new entrants to the new schemes entering employment after the implementation date. But not all new members will want to work longer, and all new scheme members will continue to have the right to retire at age 60. All new scheme members who under the new arrangements would retire on a lower pension than they would under existing rules will be offered the opportunity to increase contributions so members

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23 DTI press notice, "Agreement reached on public sector pensions", 18 October 2005
24 'Pensions Update – October 2005',

> can continue to retire on a full pension at age 60. Those who wish to continue to work to the new normal pension age will be able to do so at the standard contribution rate.
>
> Government will make available approximately 1% of pay roll to improve benefits in the new schemes, such as improved survivor benefits, or to deal with transition arrangements/protection for existing scheme members.
>
> Scheme specific negotiations should take account of the special physical and mental demands of many public sector jobs, and the resultant continuing importance of early retirement provision for those with ill health.[25]

It was also agreed that "cap and share" mechanisms would be introduced as mechanism for responding to future increases in longevity. The 2009 Pre-Budget Report said:

> Following the Public Service Forum 2005 agreement to deliver sustainable and affordable public service pensions, it was agreed that public service pension schemes would introduce the cap and share mechanism.
>
> The cap and share policy is designed to ensure that the cost pressures associated with the rising cost of providing pension scheme benefits (such as improving longevity) are shared between employers and employees up to an agreed employer contribution cap, beyond which all further increases will be the responsibility of employees. This sets a maximum limit to employer contributions thus protecting the public finances and taxpayer. The costs will be assessed through the periodic scheme valuations that take place every 3 or 4 years.[26]

This is discussed in more detail in Library Standard Note SN 5252 Public service pensions: cost capping and sharing.

Reactions to the agreement were mixed. The public service unions welcomed the deal.[27] However, news reports variously stated that the deal was a "feeble climbdown" and that the Government had "caved in" and committed "abject surrender".[28] The then Shadow Trade and Industry Spokesman, David Willetts, said:

> At his Party Conference, Tony Blair said that every time he reformed something, he wished he'd gone further. On that test, he will clearly regret this feeble climbdown. There is a growing divide between public and private sector pensions which cannot be sustained. At this rate it could take forty years for the public sector retirement age to rise. The Arctic ice cap is melting more rapidly than the Government is reforming public sector pensions.[29]

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25 Ibid.

26 HM Treasury, Long-term public finance report: an analysis of fiscal sustainability, December 2009, Box 6.A

27 PCS press notice, "Unions and government reach agreement on public sector pensions", 18 October 2005; Unison press notice, "Public service pensions deal", 18 October 2005

28 See, for example: "Retirement age pact 'is a feeble climbdown'", *Daily Telegraph*, 19 October 2005; "Ministers cave in over public sector early retirement", *The Times*, 19 October 2005; and "Abject surrender over public sector pensions", *Financial Times*, 19 October 2005.

29 Conservative Party press notice, "Blair will regret feeble pensions climbdown", 18 October 2005

However, the then Trade and Industry Secretary, Alan Johnson, reacted strongly to the accusations and, in a letter to the *Financial Times*, wrote:

> Any good employer would discuss such significant changes with the unions that represent the workers affected. That's what we did and the agreement we reached achieves exactly what we said we would deliver. All new public sector workers will now have a pension age of 65 matching the norm in the private sector and facing up to the challenge of longer lives. Turnover of staff guarantees that this change quickly works its way through the system and ensures that we deliver in full the Pounds 13bn of savings to the taxpayer that we wanted. Just like most private sector pension reforms, the pension provision of existing scheme members will be protected. Any changes will be agreed at the individual scheme level but within an agreed cost envelope. This means there will be no additional cost to the taxpayer if schemes decide not to move to a pension age of 65 for existing staff. This is a sensible deal for the taxpayer and hard working (and often lower paid) public sector employees.[30]

The normal pension age in the main public service schemes following the reforms introduced by the Labour Government are summarised in the following table:

Normal pension age (NPA) post reform in the main public service pension schemes

Local Government Pension Scheme	NPA of 65. The rule of 85 (allowing earlier retirement on an unreduced pension) is abolished. For existing members on 30 September 2006, there is full transitional protection to 2016 tapered protection to 2020.
Civil Service Pension Scheme	NPA of 65 for new entrants from 30 July 2007, 60 for existing members.
NHS Pension Scheme	NPA of 65 for new entrants from 1 April 2008, 60 for existing members
Teachers' Pension Scheme	NPA of 65 for new entrants from 1 January 2007, 60 for existing members.
Firefighters' Pension Scheme	NPA of 60 for new entrants from 6 April 2006; 55 (or 50 with 25 years' service) for existing members.
Police Pension Scheme	An unreduced pension can be drawn from age 55 after 35 years' service for new entrants from 6 April 2006; or after 30 years' service, or at age 50 with 25 years' service, for existing members.
Armed Forces Pension Scheme	NPA of 55 in both AFPS 75 and AFPS 05

The reforms in individual schemes are discussed in more detail in section 4 below.

30 "Government has not 'surrendered' on public pensions", *Financial Times*, 20 October 2005; See also, "Response: This pensions deal will not cost us billions", by Alan Johnson, *Guardian*, 30 November 2005; and HC Deb 30 November 2005, c 273 [John Hutton] and

4. Scheme by scheme reforms

4.1 Civil Service Pension Scheme

A Cabinet Office consultation document published in December 2004 *("Building a sustainable future")* proposed that the normal pension age would rise to 65 from April 2006. Members in post on 5 April 2006 would continue in their existing scheme until 31 March 2013. They would then move to the new scheme (including pension age 65) for service on or after 1 April 2013.[31]

Following negations, the then Cabinet Office Minister, Pat McFadden, wrote to the Council of Civil Service Unions on 4 December 2006 to explain that a package of reforms that had been agreed. There were four parts to the package:

- existing civil servants – no change

- new employees from July 2007 – new pension arrangements

- shared responsibility for dealing with future cost increases

- possibility of refreshing the existing pension scheme with new features.[32]

Existing staff would "retain their current pension benefits, including pension age subject to any potential changes in the future resulting for instance, from cost sharing as described above."[33]

For new entrants joining or rejoining after 30 July 2007, a new scheme was introduced – *nuvos* – with a normal pension age of 65.[34] For members of the existing schemes, the normal pension age would remain at 60. Other reforms included changes to facilitate flexible retirement.[35]

The scheme rules for the different sections (depending on date of joining) and other information about the scheme are on the Civil Service Pensions website. The wider reforms are discussed in more detail in Library Standard Note SN 3224 Civil Service Pension Scheme.

4.2 NHS Pension Scheme

In January 2005, the NHS Employers' Organisation published a consultation document on the NHS Pension Scheme Review.[36] It was proposed that the increase to 65 would apply to new entrants from September 2006 and for existing members from 2013, in respect of service from that date:

31 Cabinet Office, 'Building a sustainable future: proposals for changes to the Civil Service pension arrangements", December 2004, p47-48 (proposals 2 and 20)
32 Letter from Pat McFadden to Council of Civil Service Unions, December 2006
33 Ibid
34 Civil Service Pensions, Nuvos pension scheme*,* July 2007
35 HC Deb, 26 July 2007, c105WS
36 NHS Employers, 'The NHS Pension Scheme Review Consultation, Technical Document, Moving to a 21st-centry pension scheme' January 2005

> Those NHS staff who intend to retire before 2013 will be able to do so without any loss of existing pension rights. NHS staff who intend to retire after 2013 will be able to do so without any loss of existing pension rights. This means that service for existing NHS staff up until 2013 will be payable on retirement after the age of 60 without reduction, calculated on the basis of pensionable pay at the time of retirement. [37]

Although the document was the outcome of twelve months partnership working, this proposals was one on which management and staff-side representatives had been unable to agree.[38]

Following the "fresh start" of negotiations, in August 2006 the NHS Employers and Trade Unions published a consultation document setting out joint proposals for reform.[39] It was proposed that the normal pension age should rise to 65 for new entrants.[40] The New NHS Pension Scheme came into effect for new entrants from 1 April 2008. It has a normal pension age of 65. Members of the existing scheme on 1 April 2008 kept the same normal pension age (60 for most staff, 55 for those with special class status[41].) Other reforms included changes to facilitate flexible retirement.[42]

The rules are in NHS Pensions Regulations 1995 (SI 1995/300), regulation E1; NHS Pensions Regulations 2008 (SI 2008/653), regulation 2.D.1. Information for scheme members can be found on the NHS Business Services Authority website. The wider reforms are discussed in more detail in SN 3281 NHS Pension Scheme.

4.3 Teachers' Pension Scheme

The Department for Education and Skills (DfES) September 2004 consultation on the Modernisation of the Teachers' Pension Scheme proposed that the normal pension age in the TPS would increase to 65 for new entrants from September 2006, and for existing scheme members from 2013.

> The Government has confirmed that the normal pension age in public service pension schemes will increase from 60 to 65. This will take effect from September 2006 for new entrants to the TPS; and for existing scheme members from 2013 in respect of service from that date. The minimum age from which pension benefits can be taken will also rise from 50 to 55, although this change will not apply to existing TPS members until 2010. I do want to stress, however, that there is nothing in any of the proposals for changes to the TPS that would prevent teachers from choosing to retire at, before or after age 60 as they can now. I have also

37 Ibid, para 2.5
38 Ibid, para 4.6
39 Moving to the future: the NHS Pension Scheme Review: joint proposals from NHS Employers and the NHS trade unions.
40 HC Deb, 25 June 2007, c389W
41 Special Classes include "Nurses, midwives, health visitors, physiotherapists and mental health officers (MHOs) in post up to 1995 have a reserved right to draw an unreduced pension at age 55. In the case of MHOs, an unreduced pension at age 55 after 20 years and double accrual of pension." Ref: 'Moving to the Future', p 7
42 NHS Employers Briefing – Changes to the NHS Pension Scheme, September 2007

> publicly confirmed that pension benefits earned before any changes are made to the TPS are fully guaranteed.[43]

Following the announced "fresh start" on negotiations in October 2005 (see section 2.6 above), a further consultation document was issued in May 2006: "*First Class, Adaptable, Sustainable: Teachers' Pension Scheme England and Wales*." Changes to the scheme came into effect on 1 January 2007. The normal pension age (NPA) increased to 65 for new entrants but remained at 60 for existing members.[44] Other changes included in the reforms included changes to facilitate flexible retirement.[45]

The rules are in the [Teachers' Pensions Regulations 2010 (SI 2010/990)](), part 7, chapter 2. Further information on the scheme can be found on the [Teachers' Pension Scheme]() website. The wider reforms are discussed in more detail in SN 405 [Teachers' Pensions]().

4.4 Local Government Pension Scheme (LGPS)

The normal pension age in the Local Government Pension Scheme (LGPS) was already 65, but the "85 year rule" allowed people to retire on a full pension earlier than this in certain circumstances:

> The 85 year rule currently allows members to retire and take their pension entitlements without actuarial reduction if the sum of their age and their length of service equals or exceeds 85 years. Members over 60 can do so as of right; members over 50 but under 60 require their employer's consent. [46]

A discussion paper, published by the Office of the Deputy Prime Minister on 7 November 2003, proposed that:

- the 85 year rule should be abolished in respect of new entrants from 6 April 2005;
- for existing members, benefits accrued up to 6 April 2005 would be protected, but benefits accrued after that date would be actuarially reduced if paid before age 65. [47]

Regulations to abolish the rule – the *Local Government Pension Scheme (Amendment No 2) Regulations 2004*, SI 2004/3372 – were laid before Parliament on 22 December 2004. However, following opposition from the trade unions,[48] the regulations were revoked.[49]

Following a period of consultation, the Government laid a further set of regulations to abolish the 85 year rule with effect from 1 October 2006. There would be transitional protection for those who would have

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43 DFES, 'Teachers' Pension Scheme – Modernisation Review', 17 September 2004, DfES/0903/2004, Secretary of State's foreword

44 Teachers' Pensions Regulations 2010 (SI 2010/990), Chapter 2

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46 Explanatory Memorandum to the Local Government Pension Scheme Amendment Regulations 2006' SI 2006 No. 966

47 ODPM, "Local Government Pension Scheme Phase 2 Policy Proposals Discussion Paper", 7 November 2003

48 See, eg, "More talks needed to avert pensions strike", UNISON press release, 11 March 2005, http://www.unison.org.uk/asppresspack/pressrelease_view.asp?id=623

49 ODPM press release, 18 March 2005, "Statement on Local Government Pensions"; The regulations were revoked by the *Local Government Pension Scheme (Amendment) Regulations 2005* (SI 2005/1903)

satisfied the rule by their 60th birthday before 31 March 2013. Consideration would be given to extending this:

> 7.2…These Regulations remove the 85 year rule again, with effect from 1 October 2006. The removal of the rule is simultaneous with the commencement date of age discrimination legislation changes, implementing Council Directive 2000/78/EC, which establishes a general framework for equal treatment in employment and occupation.
>
> 7.3 Transitional arrangements are provided for those existing Scheme members who would have satisfied the rule by their 60th birthday before 31 March 2013. This provides protection for those scheme members closest to retirement who might have made financial assumptions based on the continuance of the 85 year rule and would not have sufficient time to make alternative arrangements. Further consideration may still be given to additional transitional protection arrangements for existing scheme members, where these are affordable and can be legally provided, in the context of a new-look Scheme for 2008.[50]

Following further consultation, the transitional protection arrangements were improved:

> Other things being equal, the transitional protections effective from 1 October 2006 mean that all members of the Scheme at 30 September 2006 will continue to accrue rights up to 31 March 2008, as if the discriminatory provision had not been removed. Beyond 1 April 2008, members who are 60 and would have satisfied the rule of 85 by 31 March 2016, will be fully protected. Between 1 April 2016 and 31 March 2020, actuarial reductions on rights accruing from 1 April 2007 will be phased in to overcome the cliff edge effect for members born either side of a cut off date. It is also proposed in the current consultation that all members of the Scheme will enjoy an improved accrual rate for membership from1 April 2008.[51]

On 15 June 2007, the then Minister for Local Government, Phil Woolas, announced a statutory consultation on proposals to further extend the transitional protection. It was proposed that there should be "full, rather than a tapered protection to 2020". However, savings would need to be made from elsewhere in the scheme to meet the cost.[52]

On 13 December 2007, Minister for Local Government, John Healey, said that the Government had not yet reached a decision:

> I have decided to ask the Local Government Pension Scheme Policy Review Group, with the assistance of GAD, to undertake a fresh costings exercise using emerging data from the 2007 LGPS actuarial valuations. This will allow a new assessment of the current cost position and also provide an opportunity for all the interested stakeholders to engage fully in the review process.[53]

A leaflet produced by Local Government Employers, 'If you joined the LGPS before 1 April 2008', sets out the complex transitional protection arrangements. The reforms are discussed in more detail in Library

50 Explanatory Memorandum to the Local Government Pension Scheme (Amendment) Regulations 2006 (SI 2006/966)
51 HC Deb, 8 January 2007, c371W
52 HC Deb, 15 June 2007, c67WS
53 HC Deb, 13 December 2007, c48-49; HC Deb, 6 March 2008, c2780W

Standard Note SN 4115 Local Government Pension Scheme: 2006 and SN 4005 Local Government Pension Scheme – rule of 85.

4.5 Expected impact

In December 2010, the National Audit Office published its assessment of changes made to Teachers', NHS and civil service schemes in 2007-08. The main changes aimed at reducing and better managing taxpayer costs were:

> **Employee contribution rates** were increased for NHS staff and teachers;
>
> The **normal pension age** rose from 60 to 65 for most new staff;
>
> A '**cost sharing and capping**' mechanism [...] was introduced to spread future cost increases between employers and employees.

Overall, the NAO concluded that:

> 14 By making changes in 2007-08 to pension schemes for civil servants, NHS staff and teachers, the Treasury and departments overseeing the schemes acted to tackle potential future growth in costs to taxpayers. As a result of the changes, which are on course to deliver substantial savings, long-term costs are projected to stabilise around their current levels as a proportion of GDP. The changes are also set to manage one of the most significant risks to those costs, by transferring from taxpayers to employees additional costs arising if pensioners live longer than is currently projected.[54]

It expected the changes to reduce annual costs to the taxpayer by 14 per cent in 2059-60:

> 2.1 We estimate, from projections produced for us by the Government Actuary's Department that the 2007-08 changes to the eight pension schemes for the civil service, NHS and teachers will reduce annual costs to taxpayers in 2059-60 by 14 per cent compared to what they would have been without the changes. In net present value terms, savings over the period to 2059-60 are equivalent to £67 billion in 2008-09 prices. Savings derive from the combination of lower total pension payments and higher employee contributions, including the potential impact of cost sharing and capping on both elements, reducing taxpayer costs for the eight schemes in 2059-60 from 1.2 per cent of GDP without the changes to 1.0 per cent with the changes. The savings lie between 0.1 and 0.2 per cent of GDP from 2025-26 onwards (Figure 1 on page 6). They peak at 0.2 per cent of GDP in 2047-48 because of a temporary reduction in numbers of retirements as the changes start to delay the age at which employees retire. Beyond 2059-60, our analysis suggests that annual savings will initially remain at 14 per cent, rising slowly from 2059-60. As a consequence of the changes, overall costs to taxpayers will stabilise at around 1.0 per cent of GDP, close to their current levels (Figure 7 overleaf).[55]

The increase in the normal pension age accounted for 43% of the savings by 2059-60, but had a delayed impact and therefore only

[54] NAO, The impact of the 2007-08 changes to public service pensions, HC 662, Session 2010-2011, para 2.1
[55] Ibid

contributed 25% of savings over the whole period. "Cap and share", if it worked as expected, would contribute 60% over the whole period:

> The financial impact of the 2007-08 changes comprises three main elements of cost savings, offset in part by other changes which add to costs:
>
> an immediate increase in employee contribution rates, which accounts for 8 per cent of savings in 2059-60, but starts before the other elements (Figure 8) and so contributes 15 per cent of total savings in the whole period to 2059-60 (Figure 9) and 32 per cent in the spending review period to 2014-15;
>
> an increase in the normal pension age for new employees, from 60 to 65 in most cases, which accounts for 43 per cent of savings in 2059-60 but has a delayed impact (Figure 8) and so contributes only 25 per cent of savings over the whole period (Figure 9) and one per cent over the spending review period;
>
> cost sharing and capping, which has not yet had an impact but, if it works as expected, will account for 49 per cent of savings in 2059-60 (Figure 8), 60 per cent over the whole period (Figure 9), and 67 per cent over the spending review period; and
>
> other changes (Figure 13 on page 30), including pension enhancements agreed alongside the higher normal pension age (see paragraph 1.11), have the largest impacts at the start and end of the projection period, so are projected to absorb 25 per cent of the annual savings from the three main elements in 2059-60, 12 per cent over the period to 2059-60, and 81 per cent over the spending review period.[56]

4.6 Schemes for the uniformed services

The reforms to the schemes for the uniformed services – police, firefighters and armed forces – were agreed earlier and were not part of the Public Service Forum framework discussed above.

Firefighters' Pension Scheme

In October 2004 the Office of the Deputy Prime Minister (ODPM) published two consultation documents on fire service pensions – one on a proposed new scheme for future firefighters from April 2006 and another on proposed amendments to the Firefighters' Pension Scheme 1992 (FPS).[57]

For existing members of FPS, the Government proposed increasing the minimum pension age to 55, with protection for those retiring before April 2013:

> 2.4. Under the current pension arrangements, a firefighter with 25 years' or more service may retire at age 50, and there is no actuarial reduction to reflect the fact that he/she has retired at this point; and a full pension may be paid to a person with 30 years' service. Ministers have considered whether the minimum pension age should be raised to age 55 for all members of the FPS and have concluded that the scheme should be amended to raise the minimum pension age to age 55 with effect from 2006. Those

[56] Ibid, para 2.7

[57] ODPM, 'Proposals for amendments to the firefighters' pension scheme', 25 October 2004; ODPM, 'Government proposals for a new Firefighters' Pension Scheme', 25 October 2004

> who retire before April 2013 aged 50 or older with 25 or more years service will be exempt from this change.
>
> 2.5. The reason for exempting those who can retire before 2013 either with a full pension after 30 years' service or from age 50 with 25 or more years' service is to provide some stability in pension arrangements for those who are most likely to be actively planning for retirement. Since the Government's intention to raise the minimum age for taking benefits was first announced in 2003, it is reasonable to set ten years from then.[58]

The FPS was closed to new entrants from 6 April 2006.[59] It has a normal pension age of 55 and there are "no proposals to change this position".[60] The minimum pension age for existing members of the FPS remains at 50. The proposal to increase this to 55 in 2013 was withdrawn.[61] For those who leave early, the deferred pension age is 60 (or "from any earlier date on which he where becomes permanently disabled for engaging in firefighting or performing any other duties appropriate to his former role as a firefighter").[62]

In its proposals for a New Firefighters' Pension Scheme (NFPS), the ODPM argued that there were "good arguments for a normal pension age of 65" but invited comments on 60 as an alternative:

> Whilst firefighters' pension arrangements have traditionally been aligned with those for police officers, this no longer appears to be justified and closer alignment with other members of the Fire and Rescue Service is recommended. There are good arguments for a normal pension age of 65 on the basis that there will be sufficient non-operational jobs to provide posts for a significant proportion of those who are no longer fit for firefighting duties; although we invite comments on age 60 as an alternative. [63]

In its response to the consultation, the Government said:

> We accept that there is not widespread support for a normal pension age (NPA) of 65. The main argument against is uncertainty about the availability of non-operational jobs for those who no longer meet the fitness standards for firefighting and other emergency response work. Scheme design will allow those who wish, and for whom suitable work is available, to continue in FRS employment beyond age 60. Stepping down provision would also enable people to remain in employment and as members of the pension scheme beyond age 60. We will keep the arrangement under review and will propose changes if it becomes clear that a normal pension age of 65 is viable.[64]

The increase to 60 was said to be justified by a number of facts, including:

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58 ODPM, 'Proposals for amendments to the firefighters' pension scheme', 25 October 2004
59 Explanatory Memorandum to the Firefighter's Pension Scheme (England) Order 2006 No. 3432
60 HC Deb, 7 November 2006, c1005W
61 Firefighters Pension Scheme Circular 4/2006. February 2006.
62 Firefighters Pension Scheme Consolidated 1992 Order
63 ODPM, 'Government proposals for a New Firefighters Pension Scheme' (October 2004)
64 ODPM, 'Government proposals for a new Firefighters' Pension Scheme', 25 October 2004

> The extension of the role of a firefighter's to cover, for example, fire safety; improved personal protective equipment and clothing; a better understanding of risk management; and good occupational health services.[65]

The minimum pension age in the NFPS, with actuarial reduction, is 55. Early retirement at age 55 without actuarial reduction may be granted where the Fire and Rescue Authority determines that this is "in the interests of the management of the service." The deferred pension age in the NFPS is 65.[66]

The increase in the pension age for NFPS members was expected to reduce the costs of the scheme and thus the contributions required.[67] NFPS members contribute 8.5% of pay, compared to 11% for FPS members.[68]

The rules are in the Firefighters' Pension Scheme (England) Order 2006 (SI 2006 No. 3432), regulation 3 and part 3; and Firefighters' Pension Scheme Order 1992 (SI 1992 No. 129), in particular, part B. Further information about the scheme can be found on the Firefighters' Pensions section of the Department for Communities and Local Government website. The wider reforms are discussed in more detail in Library Standard Note SN 3260 Firefighters Pension Schemes.

Police Pension Scheme

In 1998 the Government proposed reforming the Police Pension Scheme 1987 (PPS). The consultation document explained that the existing scheme offered:

> Maximum pension of 2/3 final pay after 30 years' service payable at any time after 30 years' service. Pension entitlement accrues at 1/60 of pensionable pay for each year of service up to 20 years and at 2/60 for the next 10 years. Accrued benefits can also be paid on retirement from age 50 with 25 years' service. [69]

As the Police Pensions website explains, the exact age depends on grade and length of service:

> You can retire and receive an immediate pension (as opposed to a deferred pension - see below) at the earliest of (depending on your pensionable service - see below):

- after 30 years' service – making the earliest age in effect 48½ unless you have brought in outside service
- at 50 with 25 years' service
- at 55 if you are a constable or sergeant in any force with less than 25 years' service

65 HC Deb, 23 November 2006, c214W
66 Department for Communities and Local Government leaflet, December 2006, 'A Guide to the New Firefighter's Pension Scheme 2006', p8
67 ODPM, 'Government proposals for a new Firefighters' Pension Scheme', 25 October 2004, p20
68 GAD, Firefighters' Pension Schemes in England. Actuarial valuation as at 31 March 2007, 23 October 2009
69 Home Office, Police Pensions Review. A Consultation Document, March 1998 [Intranet]

- at 55 if you are a inspector, chief inspector, superintendent or chief superintendent in the Metropolitan Police with less than 25 years' service
- at 57 if you are a commander or deputy assistant commissioner in the Metropolitan Police with less than 25 years' service
- in all other cases at 60.[70]

The Home Office was concerned that this led most police officers to retire well before their compulsory retirement age and added to the costs of the scheme. It proposed a new scheme for new entrants and set out various options for discussion, including an increase in the normal pension age to 55, increasing the length of service to accrue maximum benefits to 35 years and having a uniform accrual rate. Consultation responses would be considered before final proposals were put to Ministers.[71]

A further document published in 2003 – *Government proposals for a New Police Pension Scheme for Future Entrants* – proposed a new scheme for new entrants. This would be a final salary scheme with a minimum pension age of 55. Thirty-five years' service would be needed to achieve a maximum pension:

> 8. It is proposed that a maximum pension under the new scheme should be built up over 35 years. It is considered that a 35-year accrual period will be compatible with future fitness levels and 35 years will also accord with the wider Government olicy of raising the minimum possible pension age from 50 to 55. All else being equal, the longer the time taken to build up a maximum pension, the less expensive the scheme is likely to be. The proposed scheme would cost around 28-29% of pay. The officer would pay 9-9.5% and the employer around 18.5-19.5%, with contribution rates regularly reviewed in the light of, for example, changes in life expectancy. The proposed contribution rate compares very well with the 11% paid at present under the current Police Pension Scheme.[72]

Early leavers would become entitled to a deferred pension at age 65, rather than 60. This was because:

> The demands of police work make it reasonable for officers to be able to retire earlier than normal with an immediate and unreduced pension. However the same arguments do not apply to those who leave the service early and take up other work.[73]

Benefits in the new scheme would accrue at a uniform rate (i.e. there would be no accelerated accrual after 20 years).[74] The Government had considered whether a maximum pension in the new scheme should be accrued over 35 or 40 years. However, it decided that the right balance lay in "a 35-year scheme which would enable officers to retire with

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70 Home Office website, Police Pensions and Retirement Policy
71 Home Office, Police Pensions Review. A Consultation Document, March 1998 [Intranet]
72 'Government proposals for a New Police Pension Scheme for Future Entrants. A consultation document issued by the Home Office, Scottish Executive and Northern Ireland Office', December 2003, page 4
73 Ibid
74 Ibid

either a full or substantial pension between the ages 55 to 60."[75] A response to the consultation published in March 2004 said that "as the general health of the population improved, it might be necessary to review the 35-year career."[76]

Serving officers would be able to remain in the existing scheme and "their ability to retire with an immediate pension after 30 years' service or with a pension payable from age 50 after 25 years' service [would] not be affected by the introduction of a new scheme." Members of the PPS who leave early (with at least 2 years' qualifying service) can claim their deferred pension from age 60.[77]

The relevant provisions are in the Police Pensions Regulations 2006 (SI 2006 No. 3415) (Part 2) and the *Police Pensions Regulations 1987 (SI 1987 No. 257).* Further information can be found on the Home Office website, Police Pensions and Retirement Policy. The wider reforms are discussed in more detail in Library Standard Note SN 700 Police Pension Scheme.

Armed Force Pension Scheme

There are two main pension schemes for members of the armed forces. AFPS 75 was closed to new entrants on 6 April 2005. The scheme for new entrants from that date is AFPS 05. [78]

The earliest age a full pension can be paid is 55. However, members of the armed forces typically do not serve until this age. For this reason, AFPS 75 provides an immediate pension for those with 16 years' reckonable service (Officers) or 22 years' (Other Ranks). The rationale was to assist personnel who could not pursue a full career in the armed forces and to encourage retention of staff until age 40 (after which there was a reduced ability to undertake fighting roles). A 2001 consultation document explained that:

> 4.6 The immediate pension point (IPP) was introduced before modern pension arrangements offered the possibility of transferring accrued entitlements between pension schemes. Its purpose was to assist Armed Forces personnel who could not follow a full career in the Services and would need some form of financial assistance with returning to civilian life. Today, no other major pension scheme offers such an early immediate pension (IP) and the current flexibility of pension schemes suggest there may be an argument for moving away from such an early pension point. It is a particularly expensive element of the AFPS.
>
> 4.7 The Review Team therefore considered a number of alternatives to the current pension point and examined how they might affect recruitment and retention in the Armed Forces. The Team took into account the following key factors:
>
> The Services, particularly the Army and the RN, need substantial numbers of young people for operations. There is then a deliberate shedding of personnel at about age 40 as there is a reduced ability to undertake fighting rules beyond this age and therefore a reduced manpower requirement. The current pension

75 Ibid, Section 4, para 22
76 Ibid
77 Ibid, p3
78 Armed Forces Pension Scheme 05, 'Your Pension Scheme Explained' (January 2007)

> points at ages 38 and 40 thus provide natural departure points. Retailing large numbers of people much after the age of 40 would result in an older Armed Forces. This would affect operational capability, and result in slower promotion for young people with a consequent loss of command experience.
>
> The pension scheme needs to support this pattern. An early IP fulfils the twin functions of encouraging people to remain in the Services through their 30s until the pension is available, and then providing for them financially when they retire. The effectiveness of the current IP as a retention incentive appears to be confirmed by continuous attitude surveys, analysis of exit patterns, and discussions with focus groups.
>
> The Services do not have a training infrastructure which could support a significant upturn in the requirement to train new recruits should an increase in recruiting be required to offset any retention problems. In any event, the retention of trained manpower is a more cost-effective way of sustaining manpower requirements.
>
> 4.8 By contrast, delaying the IP until, say, the age of 50 would require the introduction of alternative retention measures, perhaps in the form of cash bonuses. Manpower modeling suggested that all the savings from delaying the IP point might need to be ploughed into a system of bonuses, and even that investment of resources might not be effective in retaining the numbers required.
>
> 4.9 In sum, the Review Team concluded that to alter substantially the current IPP would place manpower planning at risk. It therefore recommended an IP should be available to all those retiring from age 40 (or after 18 years' service, whichever is the later) for all ranks. It nonetheless recognized that a system of bonuses might be attractive to some individuals, who might prefer a lump sum payment in middle life to enable them to invest in housing or in establishing a business after leaving the Services. Some flexibility could be introduced into the scheme by giving by the MOD a discretion to allow people to opt for a bonus or bonuses, with the consequence that pension entitlements would be deferred until around 55 or 60. Bonuses could be structured so that they were linked to a return of service, thus forming a retention incentive to individuals. The Team therefore recommends that members of the Armed Forces be invited to choose between taking an IP at 40, or opting for a bonus. In order for a bonus option to act as a retention incentive the choice would need to be offered to individuals in their early thirties. No individual would be prevented from opting for an IP if he so choose.[79]

A report on the consultation process published in 2003 explained that the MoD still thought compensation payments from around age 40 were necessary to enable the Services to retain the right balance of fitness and experience. However, in order to comply with proposed changes in pension tax rules (to the effect that a pension would not be payable before age 55) [80], the Immediate Pension would be replaced by a system of Early Departure Payments:

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[79] MoD, 'The Armed Forces Pension Scheme Review. A consultation document', March 2001 [Intranet]

[80] Inland Revenue and HM Treasury, Simplifying the taxation of pensions: increasing choice and flexibility for all, December 2002, para 5.15

> Currently the IPP acts as a pull-through to around 40, providing a pension lump sum and income to those leaving. It is a method of encouraging people to remain in the Services through their 30s, and then of providing compensation for them when they leave after a shortened career, and allowing the Services a means of 'paying off' those who can no longer meet their fitness requirements, enabling them to maintain a fit, skilled fighting force. The value of this approach to meeting the manning objectives of the Services has been confirmed. However, the Inland Revenue Pensions Green Paper (December 2002) proposes arrangements, which prevent early payment of pension benefits in this way. We have therefore devised an alternative non-pension arrangement, known as the Early Departure Point (EDP), to deliver a lump sum and income stream to help Service personnel adjust to civilian life (with pension benefits being preserved until age 65). The Review Team felt that to alter substantially the proposal to make compensation payments from age 40 would place at risk the Armed Forces ability to man themselves with the right balance of fitness and experience. Work is being undertaken to develop a trial bonus scheme for a discrete group of personnel within the current pension scheme. Once the trial is complete, its effectiveness will be evaluated alongside the new EDP arrangements.[81]

A Parliamentary Written Answer of 2007 outlines the current provision in the two schemes:

> **Mr. Laws:** To ask the Secretary of State for Defence what the earliest age is at which a member of the armed services can receive a full pension; and if he will make a statement. [144274]
>
> **Derek Twigg:** The expression 'full pension' is taken to mean a pension reflecting the maximum amount of reckonable service allowed under the pension scheme rules. As the majority of service personnel belong to either the armed forces pension scheme 1975 (AFPS 75) or the armed forces pension scheme 2005 (AFPS 05) my answer is in respect of those schemes.
>
> Under AFPS 75 the most an officer can accrue is 34 years reckonable service from age 21 and, for another rank, the limit is 37 years reckonable service from age 18. The earliest that a full pension can be paid is age 55 and this full pension is worth 48.5 per cent. of representative pay.
>
> Officers who leave having accrued at least 16 years reckonable service from age 21 under AFPS 75 and other ranks who leave having accrued at least 22 years from age 18 are entitled to a pension paid immediately upon discharge but this is a proportion of the full career pension. Those who leave with two or more years service but insufficient to qualify for this immediate pension are awarded a preserved pension payable at age 60 for service before 6 April 2006 and 65 for service after that date.
>
> Under AFPS 05 the most that a member can accrue is 40 years reckonable service with no minimum age limit. The normal full pension entitlement is age 55. A full pension under AFPS 05 is worth just over 57 per cent. of final pensionable pay.
>
> AFPS 05 members who leave before age 55 with two or more years reckonable service are entitled to a preserved pension payable at age 65. Those who have given at least 18 years

[81] MoD, 'New Armed Forces Pension Scheme. Report on consultation process', September 2003, p4 [Intranet]

> reckonable service and attained age 40 are eligible for payments from the early departure payments scheme. Their pensions are preserved until age 65.
>
> Finally, members of the armed forces do not typically serve to age 55 or beyond. In 2005-06 approximately 10 per cent. of officers and approximately 7 per cent. of other ranks served long enough to receive a full pension.[82]

The rules are in the Army Pensions Warrant 2010 (part D) and the Armed Forces Pension Scheme Order 2005 (SI 2005 No. 438) (part D). Information about the Armed Forces Pension Scheme can be found on the MOD website. The wider reforms are discussed in more detail in SN 5891 Armed Forces Pension Scheme – 2011 onwards and SN 5892 Armed Forces Pension Reform – 1995-2005.

[82] HC Deb, 25 June 2007, c101-2WA

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